

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION  
Fiscal Year Ended December 31, 2006

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***Quast, Janke and Company, P.C.***  
*Certified Public Accountants*

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1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

*Timothy J. Quast, C.P.A.*  
*Mark G. Janke, C.P.A.*  
*Ned E. Kleinke, C.P.A.*  
*David G. Gwizdala, C.P.A.*

*Members:*  
*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

**INDEPENDENT AUDITOR'S REPORT**

May 29, 2008

To the Board of Directors  
Bay Area Storm Water Authority  
Bay County, Michigan

We have audited the financial statements of the governmental activities of the Bay Area Storm Water Authority as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Bay Area Storm Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the Bay Area Storm Water Authority as of December 31, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.

**BAY AREA STORM WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2006**

This section of the Bay Area Storm Water Authority's December 31, 2006 Financial Report presents Management's Discussion and Analysis of the Authority's financial activities during the fiscal year ended December 31, 2006. The analysis focuses on the Authority's financial performance as a whole. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

**FIANANCIAL HIGHLIGHTS**

- The assets of the Bay Area Storm Water Authority exceeded liabilities at December 31, 2006, by \$22,817.41. All of this amount is unrestricted and may be used to meet the Authority's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year the Authority's general fund reported an ending fund balance of \$22,817.41.

**USING THIS REPORT**

The annual report consists of a series of financial statements as well as other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Authority's financial activities.
- Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of the Authority as a whole and represent an overall view of the Authority's finances.
- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the Authority's operations in more detail than the government-wide statements.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**REPORTING THE AUTHORITY AS A WHOLE**

The Statement of Net Assets and the Statement of Activities - the Government wide statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

BAY AREA STORM WATER AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
December 31, 2006

One of the most important questions asked about the Authority's finances is, Is the Authority as a whole better or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. These two statements report the Authority's net assets, which are the difference between assets and liabilities, as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the Authority's property tax base and the condition of the Authority's infrastructure are also important in making this decision.

In the Statement of Net Assets and the Statement of Activities, all the activities are reported as governmental activities:

- Governmental Activities - All of the Authority's basic services are reported here, such as the regulation of storm water discharges. Local unit contributions and grants finance most of these activities.
- Business-Type Activities - The Authority has no business-type activities.

## **REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS**

The fund financial statements provide detailed information about individual, significant funds, not the Authority as a whole. Some funds are required to be established by State law and by bond covenants. The Authority can establish other funds to control and manage money for particular purposes (such as construction of capital projects) and to show that it is properly using certain revenues. The Authority has one kind of fund:

### **Governmental Funds**

The Governmental Funds account for all of the Authority's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund. This fund is reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

BAY AREA STORM WATER AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
December 31, 2006

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets serve over time as useful indicator of financial position. The following analysis shows the Authority's total net assets at December 31, 2005 and 2006.

	<u>Governmental</u> <u>Activities</u> <u>2005</u>	<u>Governmental</u> <u>Activities</u> <u>2006</u>
Assets		
Cash and cash equivalents	<u>\$ 19,918.23</u>	<u>\$ 22,817.41</u>
Total Assets	19,918.23	22,817.41
Net Assets		
Unrestricted	<u>19,918.23</u>	<u>22,817.41</u>
Total Net Assets	<u><u>\$ 19,918.23</u></u>	<u><u>\$ 22,817.41</u></u>

Net assets of governmental activities increased for the years ended December 31, 2005 and 2006 by \$19,918.23 and \$2,899.18, respectively. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is \$19,918.23 and \$22,817.41, respectively.

BAY AREA STORM WATER AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
December 31, 2006

The following analysis provides the changes in the net assets for the Authority's governmental activities.

	<u>Governmental</u> <u>Activities</u> <u>2005</u>	<u>Governmental</u> <u>Activities</u> <u>2006</u>
Program Expenses:		
Operating expenses	\$ 1,632.77	\$ 22,357.94
Total program expenses	1,632.77	22,357.94
General Revenues:		
Member Contributions	21,551.00	13,000.00
Operating grants	0.00	12,257.12
Total general revenues	<u>21,551.00</u>	<u>25,257.12</u>
Change in Net Assets	19,918.23	2,899.18
Net Assets beginning of year	<u>0.00</u>	<u>19,918.23</u>
Net Assets end of year	<u><u>\$ 19,918.23</u></u>	<u><u>\$ 22,817.41</u></u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The only governmental fund is the General Fund of the Authority. As measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

## ECONOMIC FACTORS

Our officials consider many factors when setting the Authority's 2006 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy.

## CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and operating activities. If you have any questions or require additional information please contact Administration at Bay Area Storm Water Authority, 515 Center Avenue, Suite 601, Bay City, MI 48708

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

STATEMENT OF NET ASSETS  
December 31, 2006

Assets	
Cash and cash equivalents	\$ <u>22,817.41</u>
Total Assets	22,817.41
Net Assets	
Unrestricted	<u>22,817.41</u>
Total Net Assets	\$ <u><u>22,817.41</u></u>

The accompanying notes are an integral part of these financial statements.



BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2006

Program Expenses:	
Operating expenses	\$ 22,357.94
Total program expenses	22,357.94
General Revenues:	
Member Contributions	13,000.00
Operating grants	<u>12,257.12</u>
Total general revenues	<u>25,257.12</u>
Change in Net Assets	2,899.18
Net Assets beginning of year	<u>19,918.23</u>
Net Assets end of year	\$ <u><u>22,817.41</u></u>

The accompanying notes are an integral part of these financial statements.

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

GOVERNMENTAL FUND BALANCE SHEET  
December 31, 2006

<u>ASSETS</u>	<u>General</u>
Cash in Bank	\$ 22,819.41
TOTAL ASSETS	\$ <u>22,819.41</u>
<u>LIABILITIES AND FUND BALANCES</u>	
Fund Balance	
Unreserved - Undesignated	\$ <u>22,817.41</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>22,817.41</u>

The accompanying notes are an integral part of these financial statements.

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 AMENDED BUDGET AND ACTUAL  
 GOVERNMENTAL FUND TYPE - GENERAL FUND  
December 31, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Member contributions	\$ 11,000.00	11,000.00	\$ 13,000.00	\$ (2,000.00)
Grants	40,000.00	40,000.00	12,257.12	27,742.88
Public Contributions	5,000.00	5,000.00	-	5,000.00
TOTAL REVENUES	56,000.00	56,000.00	25,257.12	30,742.88
EXPENDITURES				
Website maintenance	1,000.00	1,000.00	-	(1,000.00)
Printing and publication	4,000.00	4,000.00	293.55	(3,706.45)
Literature distribution	3,500.00	3,500.00	4,316.08	816.08
IDEP equipment	750.00	750.00	-	(750.00)
IDEP consultants	43,000.00	43,000.00	11,567.06	(31,432.94)
Accounting/auditing	1,000.00	1,000.00	-	(1,000.00)
Survey	6,000.00	6,000.00	-	(6,000.00)
Insurance/bonding	550.00	550.00	1,097.89	547.89
Attorney fees	1,000.00	1,000.00	49.44	(950.56)
Administrative printing/supplies	750.00	750.00	1,873.43	1,123.43
Postage	750.00	750.00	397.64	(352.36)
Travel	-	-	103.39	103.39
Intern costs	-	-	1,862.23	1,862.23
Office expense	-	-	361.23	361.23
Testing services	-	-	436.00	436.00
TOTAL EXPENDITURES	62,300.00	62,300.00	22,357.94	(39,942.06)
REVENUES OVER EXPENDITURES	(6,300.00)	(6,300.00)	2,899.18	70,684.94
FUND BALANCE, BEGINNING OF YEAR	19,918.23	19,918.23	19,918.23	-
FUND BALANCE END OF YEAR	\$ 13,618.23	\$ 13,618.23	\$ 22,817.41	\$ 70,684.94

The accompanying notes are an integral part of these financial statements.

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Bay Area Storm Water Authority, ("Authority"), was established as a municipal sewage and water supply authority pursuant to the provisions of Michigan Public Act No. 233 of 1955. It is a joint authority created by contractual agreement between the Bangor Charter Township, Bay County Road Commission, Bay County, City of Bay City, City of Essexville, Frankenlust Township, Fraser Township, Kawkawlin Township, Hampton Charter Township, Monitor Charter Township and Portsmouth Charter Township. Its purpose is to provide its member Municipalities with assistance in maintaining compliance with laws and regulations of the United States and State of Michigan which pertain to the regulation of storm water discharges. The Authority is governed by a Board of Trustees, which is comprised of a representative from each of the participating municipalities. Each board member is appointed by the Member Municipality.

The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

The accounting policies of the Bay Area Storm Water Authority conform to generally accepted accounting principles, as applicable to government units. The following is a summary of the significant policies.

**GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 34**

Bay Area Storm Water Authority implemented GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (GASB 34). This statement affects the manner in which the Authority records transactions and presents financial information.

State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB 34 establishes new requirements and a new reporting model, much like private-sector financial reports, for the annual financial reports of state and local governments. The new format was developed to make annual reports of state and local governments easier to understand and more useful to users of governmental financial information.

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's Discussion and Analysis - GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Authority's financial activities in the form of management's discussion and analysis (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all Bay Area Storm Water Authority's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements also include the following:

Statement of Net Assets - The statement of net assets is designed to display the financial position of the Primary Government (governmental and business-type activities) and the total of its discretely presented component parts. Bay Area Storm Water Authority reports capital assets in the government-wide statement of net assets and reports depreciation expense - the cost of "using up" capital assets - in the statement of activities. The net assets of the Authority are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Authority's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, Bay Area Storm Water Authority has recorded capital assets and certain other long-term assets and liabilities in the statement of net assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

**BUDGETARY INFORMATION**

Comparisons to budget are presented for the General Fund as required by generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Authority. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). The Authority does not utilize encumbrance accounting.

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of deposits in checking accounts, other demand accounts and certificates of deposits with an original maturity date less than 90 days from the original issue date.

Michigan law authorizes the Authority to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

BAY AREA STORM WATER AUTHORITY  
Bay County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

1 .SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEPOSITS

At year-end, the carrying amounts and bank balance of the Authority's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$22,817.14	\$ 24,551.17

The Authority's deposits are in accordance with statutory authority.

2. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to claims, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance to provide for these risks.

There was no change in coverage from the prior year.

# *Quast, Janke and Company, P.C.*

*Certified Public Accountants*

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May 29, 2008

To the Members of Bay Area  
Storm Water Authority

In planning and performing our audit of the financial statements of Bay Area Storm Water Authority for the years ended December 31, 2005 and 2006; we considered its internal control system in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls. As a result of the aforementioned study, we became aware of a few items that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters.

## POLICIES AND PROCEDURES

Condition: The Authority does not maintain documentation of policies and procedures.

Criteria: Each employee should know the policies and procedures for their position.

Potential Effect: Lack of defining policies and procedures could lead to poor employee work ethic and misrepresentation of the financial information.

Cause: No formal written documentation of policies and procedures.

Recommendation: We recommend that the Authority compile all internal control policies and procedures into one document.

## SEGREGATION OF DUTIES

Condition: The Authority does not maintain segregation of duties.

Criteria: Segregation of accounting duties is a fundamental method of strengthening internal control.

Potential Effect: Inadequate segregation of duties presents the possibility of intentional misrepresentation of the financial information.

Cause: The relatively small number of staff available makes it difficult to adequately segregate duties.

Bay Area Storm Water Authority



Recommendation: Have a staff person who has no physical control of cash receipts and no recording functions to be the person responsible for making the bank deposit. Another area where we feel the segregation of duties could be changed is to have a staff person who does not have access to the bank account perform the monthly bank reconciliation.

REVENUE RECEIPTING

Condition: The Authority does not maintain a receipt booklet for recording revenue.

Criteria: Strong internal controls provide for the reliability of financial reporting, timely reporting of transactions, access restriction to and accountability for resources and records, and proper documentation of transactions.

Potential Effect: All revenue may not be recorded.

Cause: Lack of issuing receipts for revenue collected.

Recommendation: We recommend that the Authority maintains a receipt booklet for recording revenue.

We would like to thank the Authority and its staff for their cooperation and assistance provided during our audit.

Sincerely,

David Gwizdala, Partner